



Flash update: Oakley Capital Investments

OCI reports very strong NAV growth, up 21% (or 95p per share) since 30 June...

Update
27 January 2022

Oakley Capital Investments' (OCI) NAV at 31 December 2021 was 538p, based on portfolio company valuations at the year-end. This represents an increase of 21% since 30 June 2021, and brings the total NAV return for 2021 as a whole to 35%. Henceforth, OCI will be reporting its NAV on a quarterly basis.

OCI makes its investments solely through the Oakley Funds managed by Oakley Capital and has a relatively concentrated underlying portfolio of growth companies in three sectors: technology, education and consumer. The largest contributions to returns over the past six months were from IU Group (12.3% of NAV at 30/06/2021) which continued to see strong growth in student enrolments during the period, and TechInsights (3.2% of NAV at 31/06/2021), whose sale has been agreed at a c. 125% premium to the June book value.

While some companies were impacted by COVID-related restrictions, the wider portfolio enjoyed strong earnings growth, benefitting from accelerating long-term trends such as the increasing adoption of digital solutions by businesses and consumers, and growing demand for quality, accessible education. During the year, 76% of the increase in the portfolio's value (including realisations) was driven by EBITDA growth and 24% by multiple expansion.

Underlying activity has been strong, with cash proceeds received during the year of c. £121m and investments made of £137m. OCI had cash on the balance sheet of £163 million at 31 December 2021, representing 17% of NAV, and no debt. Total outstanding commitments at the year-end were £740 million when including the initial commitment to Fund V announced post year-end.

Kepler View

The NAV announcement represents a very strong second half for OCI. A NAV total return of 35% over 2021 compares to the FTSE World Index return of 18.9%, representing a hefty level of outperformance. Over the year, OCI's discount has narrowed, such that total shareholder returns over 2021 were 48%. Given the reporting lags involved, it will be some time before we are able to put OCI's performance into context with peers.

OCI aims to be the first institutional investor in a company, and aside from supporting management to grow revenue and earnings rapidly, the team also aim to "professionalise" these businesses,

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making them ideal subsequent targets for other private equity investors. The recent deal to sell (and reinvest in) TechInsights to CVC Growth Funds, provides evidence that this strategy is working.

OCI has a significant cash balance (17% of NAV at 31/12/2021). Outstanding commitments (at the year end) of £740m may look optically high. However, as we discussed in the **Gearing section** in our recent note, a good proportion of historic outstanding commitments are unlikely to be called. In our view the €400m commitment to Oakley's Fund V shows the board's confidence in future cash flows from realisations and investment activity. The average holding period for Oakley Capital's investments has been around four years (Source: Oakley Capital), which compares to the average maturity of the current portfolio being between 3.5 – 4 years. To us, this suggests that further realisations cannot be ruled out. It is also worth noting that the Fund V commitment is expected to be deployed over the next five years.

We think Oakley's focus and expertise in specific sectors, its proven ability to source investments (platform or bolt-on) through its proprietary network of entrepreneurs and its discipline in terms of pricing and valuations means OCI is highly differentiated from peers. Despite the share price moving up c. 10% on the day of the announcement (26/01/2022), OCI trades on a discount to the published NAV of 22% (as at 27/01/2022). This represents a big discount in absolute terms and likely relative to peers (once updated NAVs have been announced). We continue to believe that OCI deserves a premium rating to the wider peer group, perhaps more in-line with HgCapital. Going forward, OCI will make quarterly NAV announcements, which we view as a good step forward in helping investors better understand the NAV trajectory, and over time



potentially this could be helpful in achieving a narrower discount.

We expect more detail on the underlying portfolio when OCI reports its annual results on Thursday 10 March 2022.

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